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Methodology and approach to the UNDP biennial support budget, 2010-2011*

Summary

In response to a request by the Executive Board, the present report contains an overview of the major areas and proposals that will be included in the biennial support budget, 2010-2011. In parallel, a mock-up of several key tables in the 2008-2009 biennial support budget, including the integrated resources plan, has been prepared, as requested by the Executive Board, for informal discussion. UNDP plans to hold a series of informal meetings with Board members over the months leading to its first regular session 2010, during which the biennial support budget, 2010-2011, and the mid-term review of the programming arrangements, 2008-2011, will be formally considered by the Board.

Elements of a decision

In providing the requested guidance to UNDP, the Executive Board may wish to (a) endorse the proposed approach for the 2010-2011 biennial support budget, which is centred on driving cost efficiencies, investing in the organization and improving accountability and transparency; (b) *in the context of improving transparency*, endorse three broad classifications of activities and costs: (i) development, (ii) management, and (iii) special-purpose; (c) *in the context of development activities and costs*, endorse three sub-classifications of activities and costs: (i) programmes, (ii) development effectiveness, and (iii) United Nations development coordination; (d) *in the context of programmes and development effectiveness activities and costs*, and based on the definitions provided, endorse those activities and costs that are more appropriately considered 'programmes', and those that are more appropriately considered 'development effectiveness'; (e) *in the context of development effectiveness activities and costs*, endorse two categories of activities and costs: (i) programme development and implementation, and (ii) programme policy advisory services; and (f) *in the context of special-purpose costs and activities*, endorse three sub-classifications of activities and costs: (i) General Assembly-mandated activities, (ii) capital investments, and (iii) non-UNDP operations administered by UNDP.

*The compilation of data required to provide the Executive Board with the most current information has delayed submission of the present report.

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I. Strategic context

A. Background

1. This report is presented in response to a request by the Executive Board that a report on the methodology and approach to the UNDP biennial support budget, 2010-2011, be presented at its second regular session 2009. In parallel and as also requested by the Executive Board, an informal report containing a 'mock-up' of several key tables in the 2008-2009 biennial support budget, including the integrated resources plan, has been prepared to capture the impact of individual budgetary proposals.

2. UNDP recommends that the biennial support budget, 2010-2011, be considered in the context of a comprehensive discussion of the resources framework, encompassing the UNDP integrated resources plan covering regular and other resources, with an emphasis on the biennial support budget and the programming arrangements framework, and the strong linkage between them.

B. Organizational priorities

3. The strategic plan, 2008-2011, sets the overall direction for UNDP operations in support of programme countries, as approved by the Executive Board in decisions 2007/32 and 2008/15. UNDP therefore focuses on providing demand-driven development, coordination and management services, funded from regular and other resources. The proposals presented in the present report seek to ensure that UNDP is able to provide high-quality policy advice and capacity development support in these areas in response to the needs of programme countries.

4. Within the overall framework of the strategic plan, the Administrator has determined that priority should be given to working effectively with programme countries to reduce poverty and achieve the Millennium Development Goals. The climate change agenda needs to figure prominently in this area, and will be incorporated into all aspects of UNDP development activities. Achieving greater transparency and accountability throughout the organization underlies all the work of UNDP.

II. Financial context

A. Driving cost efficiency

5. UNDP needs an adequate, predictable base of regular resources in order to support programme countries in achieving their development goals. The global economic crisis and the highly volatile exchange rate environment pose serious challenges in this regard, especially with respect to the strategic direction and sustainability of the organization, and its ability to support the development goals of programme countries. The viability of the strategic plan could be at risk if voluntary contribution levels fail to reach the targets established in the integrated resources plan as approved by the Executive Board in its decision 2007/32.

6. Every effort will be made to sustain or increase donor contributions and expand the donor base. In parallel, UNDP will strive to contain management costs and drive efficiency gains in order to maximize the allocation of resources to development activities. Nevertheless, a critical mass of regular resources is required for management activities to ensure that country office capacities are sustained; statutory and executive management functions are fulfilled;

corporate priorities are met; essential management services are delivered; and strategic new investments can be made.

7. In view of the above and the organizational priorities referred to in paragraph 4, UNDP is undertaking an internal review centred on maximizing efficiency gains, reprioritizing, and reducing costs. It is focused on (a) eliminating redundant and non-essential services and activities; (b) identifying lower-priority functions and related activities which could be reduced or eliminated; (c) managing vacant and soon-to-be-vacant posts, including the freezing of same; and (d) maximizing the use of available extrabudgetary resources.

8. While the internal review has not been finalized, it is expected that proposed reductions to the biennial support budget, 2010-2011, could reach an unprecedented level in excess of $50 million. Those reductions are expected to largely offset anticipated 2010-2011 cost increases attributed to inflation, salary increases and operating adjustments. The result would be a real budgetary reduction of at least 6 per cent before factoring in proposed investments under consideration in strategic priority areas to include those outlined in paragraph 10 below.

B. Investing in the organization

9. Several priority areas have been identified for which modest investment proposals are currently under consideration in response to national development priorities and the organizational priorities referred to in paragraph 4. UNDP expects that the funding of these proposals, if approved, would result in an overall real budgetary reduction of at least 3 per cent for 2010-2011.

10. Priority areas for which investments are under consideration include:

(a) strengthening investments in achieving the Millennium Development Goals, with special emphasis on Africa and least developed countries, in response to General Assembly resolution 62/208 and Executive Board decisions 2007/32, 2008/14 and 2009/9;

(b) strengthening South-South-related development activities and services between programme countries in response to General assembly resolution 62/208 and Executive Board decisions 2007/36 and 2008/15;

(c) maintaining crisis prevention and recovery-related development activities and services in affected programme countries in response to General Assembly resolution 62/208 and Executive Board decision 2007/4; and

(d) strengthening global development services through enhanced management and sharing of knowledge in response to General Assembly resolution 62/208.

C. Improving transparency

11. The Executive Board has requested UNDP to provide proposals for realigning the cost classification of activities in order to provide a more realistic, transparent and harmonized attribution of activities and attendant costs, first in decision 2003/22 on the 2004-2005 biennial support budget, and most recently in decisions 2007/33, on the 2008-2011 programming arrangements, 2008/1 on the 2008-2009 biennial support budget, and 2008/32 on the evaluation of the global programme.

12. As part of the process of improving transparency and accountability of, and in response to, the Executive Board decisions cited in paragraph 11, further clarifications and strengthening are required in the following areas:

(a) *Strategic alignment* of the integrated resources plan and attribution of costs therein;

(b) *Further integration* of the integrated resources plan to facilitate and rationalize the presentation of information for review, approval, and reporting on results; and

(c) *Increased harmonization* of the integrated resources plan in line with the requirement for harmonized, transparent cost classification of activities, and improved results-based budgeting.

13. The remainder of this report will focus in large part on the improved presentation and increased transparency of the integrated resources plan, with an emphasis on the biennial support budget and the programming arrangements framework. The allocation of programme resources at the country level through the 'target for resource assignment from the core' (TRAC) method will not be affected. The proposed arrangements for programme resources will be elaborated in the mid-term review of the programming arrangements, 2008-2011.

III. Proposed outline of the integrated resources plan

A. Objective

14. The proposed outline of the integrated resources plan seeks to provide a coherent, transparent presentation of UNDP activities, costs and budgetary allocations, and their linkages to organizational goals and plans, primarily through improved alignment, integration and harmonization. This is expected to lead to improved results-based planning and delivery of demand-driven services in support of programme country development objectives. In that regard, UNDP will continue to work with partner organizations such as UNFPA and UNICEF towards further increasing harmonization. Ultimately, this should facilitate overall Executive Board and internal UNDP decision-making and improve performance measurement and reporting.

B. Challenges

15. In responding to the Executive Board decisions on cost classification of activities referred to in paragraph 11, UNDP identified two systemic and interrelated impediments to the clear presentation, and thus understanding, of UNDP activities, costs and budgetary allocations and their linkages to organizational goals and plans.

16. First, overall UNDP resources allocations are decided by the Executive Board through two distinct legislative mechanisms – the programming arrangements framework and the biennial support budget. While discussed at the same Executive Board session, these two resource frameworks are individually prepared and separately legislated. This is contrary to the integrated approach required to ensure an effective development response, supported by the necessary UNDP management functions.

17. Second, and of equal importance, the categories used in the presentation of budgetary data for information and decision-making purposes do not support a logical or consistent attribution of activities and costs within and between the programming arrangements framework and the biennial support budget.

18. The above challenges are best illustrated by development effectiveness activities. As introduced in the strategic plan, development effectiveness activities represent UNDP functions and activities required to ensure the effective delivery of high-quality development results. The term has replaced the previously used 'programme effectiveness' because it is more accurate, given the broad range of development services falling under it that are not limited to programmes or projects. Specifically, development effectiveness activities represent inputs of a policy advisory, technical and implementation nature that are needed to achieve the objectives of programmes and projects in the four UNDP focus areas. The activities are considered integral to achieving planned results. This category includes the costs of policy advisory services, as well as advocacy and technical support costs incurred during programme and project identification, formulation, management and implementation.

19. Development effectiveness activities are currently funded from regular and other resources, under both the programming arrangements framework and the biennial support budget. This results in a non-coherent categorization of activities and costs.

20. In principle, under the current legislative mechanism, the programming arrangements framework should fund development activities including: (a) programme activities; (b) effective development services, or 'development effectiveness'; and (c) facilitation of United Nations development coordination. In practice, the programming arrangements framework does not contain all development effectiveness and United Nations development coordination activities, as discussed below. Moreover, it does not sufficiently differentiate programme activities from development effectiveness activities. Incorporating these activities as 'development activities' under the existing programming arrangements framework will not reduce the TRAC resources available for country and crisis prevention and recovery activities.

21. While the biennial support budget should in principle fund only management functions, in practice it funds development effectiveness activities, as well as the bulk of United Nations development coordination activities, both of which would be more appropriately classified as development activities. The biennial support budget should, however, continue to fund the overall leadership, direction and oversight of programme and development effectiveness activities.

22. The mid-term review of the programming arrangements, 2008-2011, will be presented for consideration by the Executive Board at its first regular session 2010. It will focus on several overarching and fundamental areas affecting the development activities funded by UNDP, one of which relates to the further rationalization and alignment of the programming arrangements framework, with an emphasis on existing programmes and their similarities with, and distinctness from, development effectiveness activities. In recognition of the increased demand from programme countries that UNDP provide policy, technical and implementation support to meet multi-sectoral development challenges in areas of UNDP expertise, the review will specifically address the feasibility of introducing a 'development effectiveness' line in the programming arrangements described in paragraphs 18-21. It will also address the need to further rationalize and align the fixed programme lines accordingly. Further, it will indicate that approximately 50 global policy advisors funded from the global programme are engaged in development effectiveness activities at the country and/or regional level. The programming arrangements review, inclusive of the implications of cost classification, will not have any impact on programme country TRAC allocations.

23. The recognition of development effectiveness should bridge the artificial divide that has been created, and continues to exist, between activities funded from the biennial support budget and those from the programming arrangements. To cite a much-used example, in response to a programme country request to 'receive policy advice', UNDP hires a consultant under the programming arrangements to provide advice on an environmental issue. The associated expenditure would be recorded as a development expense. In contrast, if the same advice for the same activity were provided by a specialized UNDP national officer in the country office, it would be charged to the biennial support budget as a management expense.

C. Classification of activities and costs

24. Three broad cost classifications cover the full spectrum of UNDP costs, as contained in the current integrated resources plan: development, management, and special-purpose[1]. While those broad classifications remain relevant, many activities and associated costs are not consistently or accurately attributed to them, and therefore classified within them, for the reasons previously discussed.

[1] General Assembly-mandated security costs and costs associated with implementation of the International Public Sector Accounting Standards.

25. In order to implement a strategic alignment in which all activities funded from regular and other resources are classified transparently, UNDP is seeking guidance from the Executive Board on three broad cost classifications, in line with the definitions provided below, supplemented and complemented by those provided in annex 1:

(a) Development;
(b) Management; and
(c) Special-purpose.

26. Development costs cover programmes, development effectiveness activities, and United Nations development coordination activities. However, it is not yet clear whether programmes should include development effectiveness activities, or if programmes and development effectiveness activities should be considered as separate subcategories within the broad cost classification of development based on previous Executive Board guidance, the definitions below, and those contained in annex 1. As discussed in the context of the mid-term review of the programming arrangements, paragraph 20, certain activities and costs now associated with existing programmes – such as outposted policy advisors funded from the Global programme, development support services, the economist programme, the Human Development Report Office and the Office of Development Studies – could, in principle, more appropriately be considered as development effectiveness costs. UNDP is seeking guidance from the Executive Board as to the similarities and distinctions between programmes and development effectiveness activities.

27. Development effectiveness activities can be further subdivided between programme development and implementation activities and programme policy advisory services, as described in annex 1. While these are separate and distinct activities, as highlighted in paragraph 18, both are considered integral to achieving planned development results. The Executive Board is therefore requested to consider them accordingly, and provide UNDP with further guidance.

28. United Nations development coordination activities are considered development activities because the coordination function relates to the entire United Nations system response to development – not just that of UNDP. Therefore, they would more appropriately be classified as a UNDP programme in support of United Nations system development activities. They do not represent a cost related to UNDP programmes, and they do not reduce the TRAC resources available for country and crisis prevention and recovery activities.

29. In view of the above, development costs are defined as follows:

(a) Programmes – representing the resource facilities, and costs classified therein, available to fund country, crisis prevention and recovery, regional and global programmes and projects in the four UNDP focus areas. These are the resource facilities (programme lines) contained in the programming arrangements framework to fund development programmes and projects and policy advisory services at the country (TRAC 1/2 and TRAC 3), global (global programme) and regional (regional programme) levels, as well as several smaller programme lines, including support to South-South cooperation and various cross cutting activities.

(b) Development effectiveness activities – representing UNDP functions and activities required to ensure the delivery of development results. These can be further broken down into programme development and implementation activities; and programme policy advisory services (see annex 1).

(c) United Nations development coordination activities – representing the inputs needed to support the coordination of development activities of the United Nations system (see annex 1). These activities can be further subdivided as follows: (i) in-country coordination activities mandated by the General Assembly as the sole responsibility of

UNDP; and (ii) in-country development activities supporting UNDP participation in the United Nations country team.[2]

30. Management activities represent UNDP functions and activities required to: provide leadership and country representation; programme direction and oversight; and operations management and administration. They support the delivery of the development and institutional results outlined in the strategic plan (see annex 1).

31. Special-purpose activities represent activities of a cross-cutting nature that are mandated by the General Assembly, involve material amounts of resources, or do not represent a cost related to the management activities of UNDP. At present they include General Assembly-mandated security costs, and costs associated with the adoption of International Public Sector Accounting Standards. UNDP proposes that the activities and costs of operations it administers on behalf of the United Nations Volunteers programme, the United Nations Capital Development Fund and the Development Operations Coordination Office, as well as reimbursable services provided to other United Nations organizations, be considered part of the 'special-purpose activities' category. Such operations and services do not represent a cost related to the management activities of UNDP. The treatment of certain capital investment costs through the introduction of capital budgeting is also under consideration, for the reasons explained below.

32. The Finance and Budget Network of the High-level Committee on Management sponsored a working group on capital budgeting in late 2008, of which UNDP assumed leadership. The main objective was to develop a broad, strategic and inclusive conceptual framework introducing harmonized capital budgeting into the United Nations system. The report of the working group was endorsed by the Finance and Budget Network. It emphasized that the treatment of capital investment costs as a special-purpose cost would serve to increase transparency by separating capital costs from operational (management) costs. It emphasized that such treatment would allow for clearer lines of accountability and longer-term strategic planning for – and funding of – high-priority capital investments. Accordingly, UNDP is considering the introduction of capital budgeting under the 'special-purpose cost' classification, on a limited and selective basis, during 2010-2011.

IV. Harmonization review initiatives

A. Background

33. The harmonization review initiatives described below support the overall objective of the integrated resources plan described in paragraph 13, as well as the classification of activities and costs therein described in paragraphs 22-28. The harmonized biennial support budget groupings and definitions agreed to in 1997 by UNDP, UNFPA and the United Nations Children's Fund (UNICEF) covering management and administration and programme support remain valid. This is particularly important given the subsequent redistribution of related activities and costs among the 16 harmonized functions in the 2008-2009 biennium with the adoption of results-based budgeting, as well as the proposals contained in this paper. Annex 2 contains a schematic diagram in this regard.

34. In its decision 2008/1 on the 2008-2009 biennial support budget, the Executive Board encouraged UNDP to intensify consultations with other United Nations funds and programmes in order to harmonize, to the extent possible, the attribution of costs between the programme and support budgets. UNDP was requested to report formally at the first regular session 2009 on proposals for realigning cost classification of activities funded from the

[2] Further harmonization discussions with partner organizations are required to ensure consistency in the presentation of in-country development activities and costs supporting the participation of United Nations organizations in the country team.

programming arrangements framework and the biennial support budget (see DP/2009/3, Cost classification in UNDP). In response to those Executive Board decisions, a joint consultancy was commissioned by UNDP, UNFPA and UNICEF in 2008, under the leadership of UNDP, to assess the degree of harmonization among the three organizations in the areas of cost classification and results-based budgeting.

35. The consultancy reviewed the harmonized cost definitions agreed to by UNDP, UNFPA and UNICEF[3] and found them still applicable. It confirmed that those definitions were broadly aligned with the Joint Inspection Unit (JIU) definitions as reflected in JIU/REP/2002/3. The one area where additional clarity was provided related to the treatment of direct project and programme costs. In that regard, the consultancy highlighted that the JIU classifies costs relating to programme and project formulation, management and implementation activities, including advisory activities, as 'direct costs of an external variable nature'. This further supports the classification of development effectiveness activities, as described in paragraph 20, as a 'development cost.'

36. In early 2009 UNDP launched a series of reviews consisting of four separate initiatives:

(a) an internal UNDP country office cost classification review;

(b) an internal UNDP central programme unit cost classification review, focusing on the Bureau for Crisis Prevention and Recovery (BCPR), the Bureau for Development Policy (BDP) and the Special Unit for South-South Cooperation;

(c) an external cost classification benchmarking exercise with four bilateral agencies; and

(d) a harmonization review with UNFPA and UNICEF that focused in part on cost classification issues.

B. Internal UNDP country office review

37. The purpose of the internal UNDP country office cost classification review was to arrive at an improved understanding of costs and funding alignment at the country office level, with respect to management, development effectiveness and United Nations development coordination activities, most of which now reside in the biennial support budget. It is clear, as highlighted in paragraphs 15-23, that development effectiveness activities exist and are funded throughout the integrated resources plan. The review therefore assisted in providing illustrative estimates of management and United Nations development coordination activities, and – even more importantly – of the extent to which country office staff are engaged in development effectiveness activities.

38. The internal UNDP country office review took the form of a comprehensive workload study, adopting a broader approach than previous studies implemented by country offices. Those previous workload studies were undertaken in the context of past biennial support budget preparations to validate activities and support the distribution of time and associated costs attributable to UNDP and United Nations development coordination activities. As was the case with past studies, the present expanded workload study uses a simplified, activity-based costing methodology – initiated in 1992 and updated periodically – to confirm country office activities and validate the expected usage (percentage distribution) of total biennial support budget resources. This is considered a rational approach and methodology for estimating and validating the reasonable distribution of activities and costs among

[3] *direct costs* – all costs that are incurred for and can be traced in full to the activities, projects and programmes of an organization in fulfillment of its mandate; *fixed indirect costs* – all costs that are incurred by the organization regardless of the scope and level of its activities, and which cannot be traced unequivocally to specific activities, projects or programmes; *variable indirect costs* – all costs that are incurred by the organization as a function and in support of its activities, projects and programmes, and which cannot be traced unequivocally to specific activities, projects or programmes.

management activities, development effectiveness activities and United Nations development coordination activities.

39. The functional groupings of activities and attribution of costs from the country office cost classification review exercise are presented in annex 1. They underscore the findings of previous studies with respect to the inextricable link between management and United Nations development coordination activities in the UNDP country office structure, and confirm that a similar relationship exists with development effectiveness activities. In that regard, material amounts of individual staff time were reported as split between those three types of activities.

40. The current internal UNDP country office cost classification review was implemented during March-April 2009. Over 3,000 staff in 106 country offices participated, a broad representational sample from which sound estimates could be drawn. The review found that 46 per cent of staff time funded from the biennial support budget at the country office level related to management activities (leadership and representation; programme direction and oversight; and operations management and administration), 27 per cent to development effectiveness activities, and 27 per cent to United Nations development coordination activities. The review also found that 41 per cent of staff time funded from extrabudgetary resources at the country office level related to management activities, 36 per cent to development effectiveness activities, and 23 per cent to United Nations development coordination activities.

C. Internal UNDP central programme unit review

41. A second internal UNDP cost classification (desk) review was undertaken, focusing on activities and costs funded from the biennial support budget with respect to BCPR, BDP and the Special Unit for South-South Cooperation. A differentiation was made between activities and costs that provide overall programme direction and oversight (management) and those that provide direct in-country policy and programme capacity support (development effectiveness). The desk review identified development effectiveness activities now being funded from the biennial support budget with respect to BCPR and South-South staff providing policy advice and programme implementation support in their areas of expertise similar to those of dedicated country office staff. In addition, the mid-term review of the programming arrangements identified global policy advisory services funded from the global programme as 'development effectiveness activities'. In summary, the following would be considered 'development effectiveness activities and costs':

(a) For BCPR – fifteen international professional posts that are available for deployment in a flexible manner to strengthen country office capacity in crisis prevention and recovery activities;

(b) For BDP – fifty-two international professional posts funded from the global programme that provide policy advisory services at the regional and country levels. They will be considered in the context of the mid-term review of the programming arrangements, 2008-2011, as described in paragraph 20; and

(c) For the Special Unit for South-South Cooperation – two international professional posts and two local posts that support operations in Africa and Asia.

D. External UNDP benchmarking review with bilateral agencies

42. A consultancy was commissioned by UNDP to conduct an external cost classification benchmarking exercise with four bilateral agencies during May-June 2009. The bilateral agencies consulted with were: the United States Agency for International Development, the Swedish International Development Cooperation Agency, the Department for International Development (United Kingdom) and the Canadian International Development Agency. The

consultancy reported that all four bilateral agencies have operating accounts comparable to the biennial support budget that are separate and distinct from their programme accounts. In turn, their programme accounts are comparable to the UNDP programming arrangements framework. The consultancy also reported that each bilateral agency carries out activities identified by UNDP as relating to development effectiveness that are funded from both those accounts. Varying degrees of flexibility exist in the use of programme accounts to fund such activities. Each bilateral agency expressed its support for the UNDP initiative.

43. In summary, the consultancy report indicated that the four bilateral agencies acknowledged the concept and delivery of development effectiveness activities, and in so doing their distinctness from management activities. However, the differentiation between activities is not always specifically supported by a transparent cost classification of activities (see annex 3).

E. External UNDP harmonization review with UNFPA and UNICEF

44. Following the joint 2008 consultancy undertaken by UNDP, UNFPA and UNICEF, and in response to concerns expressed by the Executive Board during 2009, a joint working group examined cost classification harmonization issues. While further work is needed in that regard, a provisional joint baseline on cost classification has been discussed that:

(a) acknowledges that organization-specific mandates, business models and approaches do not render total harmonization feasible;

(b) acknowledges the importance of providing external stakeholders with more comparable and thus harmonized budgetary information;

(c) acknowledges that clearer understanding and more consistent application of common definitions are needed;

(d) agrees that costs associated with the provision of policy and technical advice in country offices should, in principle, be considered 'development activities';

(e) agrees upon further synchronization of the contents of the 16 harmonized functions; and

(f) agrees upon further harmonization in the presentation of financial information in the tables and figures to be reflected in the biennial support budgets2010-2011, of the respective organizations.

F. Conclusions

45. Based on the four cost classification review initiatives described above, there appears to be a clear consensus on both the existence and importance of development effectiveness activities defined in paragraph 18. What is lacking is consistency in how those activities and related costs are attributed, classified and funded.

46. In line with the need for strengthened alignment of the cost classification of activities, and based on the four review initiatives undertaken, UNDP has notionally adjusted its biennial support budget, 2008-2009, for illustrative purposes (as summarized below). The budgetary impact is presented in an informal report containing a mock-up of several key tables in the 2008-2009 biennial support budget, covering the integrated resources plan, the regular resources appropriations, and the extrabudgetary estimates, adjusted as follows:

(a) Classification of UNDP development effectiveness activities and associated costs at the country level as 'development costs' based on the results of the internal country office cost classification review exercise (annex 1) and as presented in the informal paper containing the mock-up of biennial support budget data for 2008-2009;

(b) Classification of development effectiveness activities and associated costs related to South-South cooperation and programmatic responses to emergency and crisis situations

as 'development costs' based on the results of the internal central programme unit review exercise and as presented in the informal paper containing the 'mock-up' of 2008-2009 biennial support budget data; and

(c) Retention of management and related programme support activity classifications at the UNDP country office level as 'management costs' within the 16 harmonized functions of the biennial support budget based on the results of the internal country office cost classification review exercise (annex 1) as presented in the informal paper containing the mock-up of biennial support budget data for 2008-2009.

V. Results-based budgeting and other considerations

A. Results-based budgeting

47. The methodology and approach for results based budgeting in the biennial support budget, 2010-2011, will continue to be based on the 16 harmonized and three UNDP-specific management functions introduced in the biennial support budget, 2008-2009. The results framework, 2010-2011, will also reflect the proposed realignment of costs as outlined above with respect to programme guidance, management and oversight (function 4), crisis prevention and recovery (function 6) and support to the operational activities of the United Nations (function 17).

48. The results framework, 2010-2011, will be drawn primarily from the institutional and coordination results frameworks of the UNDP strategic plan and the UNDP 'executive balanced scorecard'. While several management functions and results are not included individually in the executive balanced scorecard, they are included in corresponding unit-level balanced scorecards. All 2010-2011 results will be both strategic and representative of the most critical organizational issues and challenges falling under each of the functions.

49. The UNDP performance framework has been amplified during 2009 to include an executive-level balanced scorecard and a series of cascading country office and headquarters unit-level balanced scorecards. Their design and application directly support the implementation of the strategic plan, as well as unit-level strategies. The UNDP performance framework is fully automated and contains performance measures (indicators, baselines and targets) for all strategic results. It serves as the primary monitoring and performance measurement tool for tracking progress towards the achievement of planned results.

50. Finally, to further harmonize results-based budgeting, UNDP, UNFPA and UNICEF were able to identify and formulate one common result under each of the 16 harmonized functions. However, the organizations concluded that similar results do not necessarily lead to common indicators.

B. Other considerations

51. Executive Board decision 2008/1 on the biennial support budget, 2008-2009, also requested UNDP to address issues pertaining to base structure and equitable cost-sharing. Accordingly, the methodology and approach to the biennial support budget, 2010-2011, will address the determination of the base structure of country offices, together with the implications of achieving a more equitable burden-sharing of management costs between regular and other resources.

52. The 'base structure' concept was introduced in the 2004-2005 budget for country offices and is supported by sustainable, predictable funding from regular resources, allowing key organizational functions to be discharged regardless of fluctuations in the volume of programme resources. This concept ensures that all UNDP country offices in low- and

middle-income programme countries have a minimum critical mass of staff capacity, funded from regular resources, recognizing their responsibilities under the business model to provide policy advisory, coordination and management services.

53. UNDP plans to review the base structure for country offices, in part within the context of the functional approach used in the internal UNDP country office cost classification review initiative summarized in annex 1. Further analysis of the country office base structure will be forthcoming based on guidance provided by the Executive Board on the budgetary proposals presented in this document.

54. Changes to the country office base structure will ultimately affect the burden-sharing of management costs between regular and other resources (proportionality). This is because the proportionality principle dictates that each source of funding should bear its fair share of total support costs above the base structure, thus avoiding subsidization by regular resources of activities supporting programmes funded from other resources.

55. Decision 2007/18 on the effectiveness of cost recovery reiterated that regular resources should not subsidize the support costs for programmes funded by other resources. It approved an indirect support-cost recovery rate of 7 per cent for new third-party contributions and a basic cost-recovery rate of 3 per cent for all new programme country contributions. It confirmed that UNDP could, exceptionally, grant waivers to the indirect cost recovery rate. Decision 2008/1 on the biennial support budget, 2008-2009, reaffirmed decision 2007/18 and requested realignment of the funding modality of UNDP management activities to ensure that cost recovery income bears the support cost associated with all other resources-funded activities in the 2010-2011 biennium.

56. UNDP will respond to decisions 2007/18 and 2008/1 in the context of the biennial support budget, 2010-2011, by reporting on the application of the UNDP cost recovery policy. It will also report on waivers granted to the indirect cost recovery rate.

C. The way forward

57. Subsequent to the second regular session and based on the guidance provided, UNDP proposes to hold two additional informal sessions with the Executive Board, the first in October, to present a preliminary draft of the biennial support budget, 2010-2011, and the second in November, to present a penultimate draft of the biennial support budget document, 2010-2011. UNDP envisages that the consultative process would culminate in a formal session with the Advisory Committee on Administrative and Budgetary Questions in late November, and a formal session with the Executive Board in January 2010.

Annex 1

UNDP country office cost classification review initiative[4/]
Functional groupings, explanatory notes and attribution of costs

A. Management activities – attribution of costs

Funding	UNDP leadership and country representation	UNDP programme direction and oversight	UNDP operations management and administration	Total
Regular resources	10%	11%	25%	46%
Extrabudgetary resources	2%	6%	33%	41%

58. ***Management activities*** represent the UNDP functions and activities required to provide leadership and country representation; programme direction and oversight; and operations management and administration. They support the delivery of the development and institutional results outlined in the strategic plan, 2008-2011. These can be categorized into three sub-groupings applicable to country office staff:

(a) *UNDP leadership and country representation.* Activities strictly related to leading and defining the vision of the country office, as well as representing UNDP in advancing its core mandate and major programme goals with governments, donors and other third parties. These activities are normally undertaken by the resident representative or are delegated to other senior staff in the office.

(b) *UNDP programme direction and oversight.* Activities related to overall managerial responsibilities in planning, overseeing, directing and leading the preparation, formulation and approval of country programme documents, country programme action plans, programmes and projects. This subgroup includes continuous implementation oversight of all UNDP-funded programmes and projects. Activities related to strategic partnerships and communications in support of the core mandate of UNDP and positioning the organization within the country should also be included here. These activities are normally undertaken by the country director and/or the deputy resident representative/programme; the deputy country director/programme; or are delegated to other senior staff in the office.

(c) *UNDP operations management and administration.* This subgroup includes activities related to overall staff/office management and the provision of workplace and support services (information and communications technology, finance, human resources, UNDP security, travel, assets and general services) that permit UNDP staff to carry out the mandate of the organization. These activities are normally undertaken by the deputy country director/operations; the deputy resident representative/operations; and/or by operations managers and the management and administration units supervised by them.

[4/] The purpose of the internal UNDP country office cost classification review was to arrive at an improved understanding of costs and funding alignment at the country office level with respect to management, development effectiveness and United Nations development coordination activities, most of which reside in the biennial support budget. Of major concern, as highlighted in paragraphs 15-23, it is clear that development effectiveness activities exist and are funded throughout the integrated resources plan. This review assisted in providing illustrative estimates not only of management and United Nations development coordination activities, but even more importantly, of the extent to which country office staff are engaged in development effectiveness activities.

B. Development effectiveness activities – attribution of costs

Funding	UNDP programme development and implementation	UNDP programme policy advisory services	Total
Regular resources	18%	9%	27%
Extrabudgetary resources	27%	9%	36%

59. ***Development effectiveness activities*** represent UNDP functions and activities required to ensure the delivery of the development results outlined in the strategic plan, 2008-2011. They represent inputs of a policy advisory, normative, technical and implementation nature that are needed to achieve the objectives of programmes or projects in the four UNDP focus areas. These activities are considered integral to achieving planned results. This category would include the costs of policy advisory services and normative work, as well as advocacy and technical support costs incurred during programme or project identification, formulation, management and implementation. They may be categorized into two sub-groupings applicable to country office staff:

(a) *UNDP programme development and implementation.* This subgroup covers activities related to managing the entire UNDP programme cycle, from the identification, conceptualization and formulation phase to the programme or annual work plans implementation, monitoring, reporting and evaluation phases. Partnership activities in support of projects and programmes and the closure of programmes are included here. Also included are: (i) assessments of implementation capacities and the determination of programme/project management arrangements; (ii) provision of technical support; (iii) responding to government/donor queries; (iv) project monitoring; (v) preparing substantive and budgetary revisions and financial analyses; and (vi) compliance with UNDP substantive and financial reporting requirements.

(b) *UNDP programme policy advisory services.* This subgroup includes activities related to the provision of policy and advisory services to UNDP programmes and projects. These include: (i) substantive policy advice; (ii) substantive analysis; (iii) aid coordination; (iv) economic advisory services; and (v) knowledge transfer in the four UNDP focus areas and cross-cutting areas such as capacity development, gender, and South-South cooperation.

C. United Nations development coordination activities

Funding	United Nations system coordination and representation	United Nations system programme activities and reporting	Operational support and services to the United Nations system	Total
Regular resources	12%	6%	8%	27%
Extrabudgetary resources	3%	6%	14%	23%

60. ***United Nations Development coordination activities*** represent UNDP functions and activities required to ensure the delivery of the United Nations system coordination results outlined in the strategic plan, 2008-2011. These activities can be categorized into three subgroups applicable to country office staff:

(a) *United Nations system coordination and representation.* This subgroup covers activities related to: (i) the coordination of United Nations system operational activities,

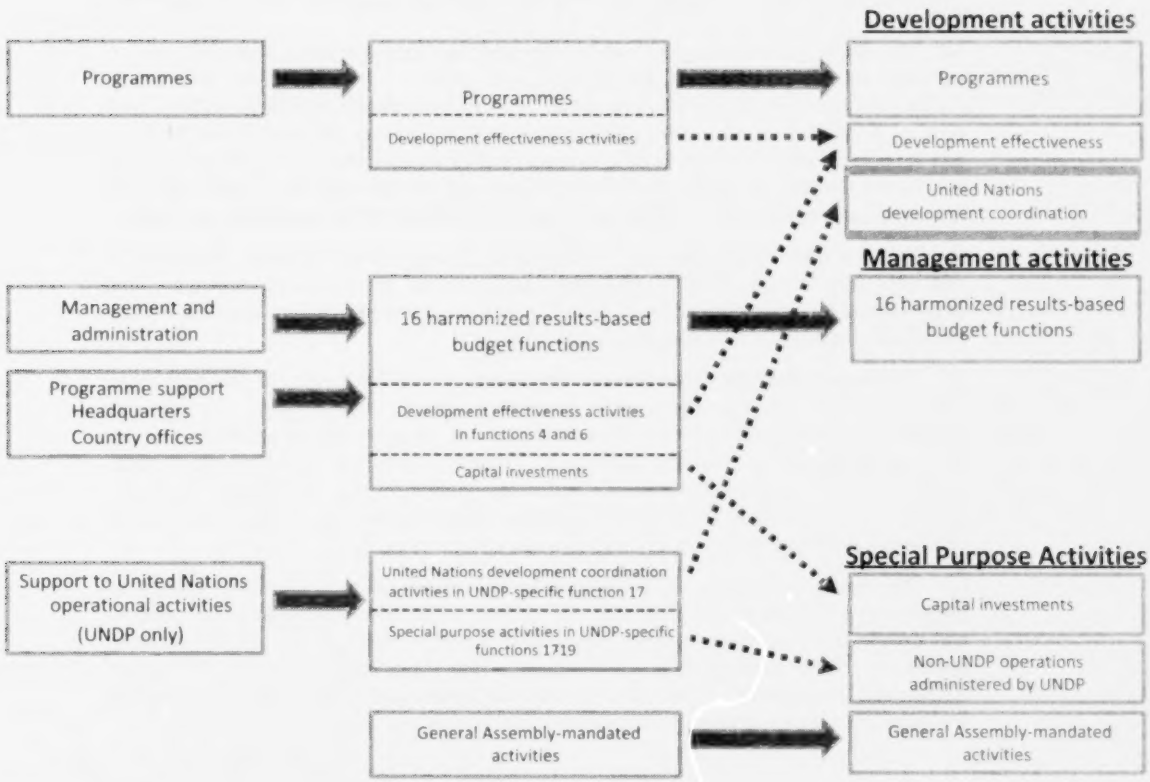
(ii) representation and advocacy on behalf of the United Nations system, including non-resident agencies and support to regional director team functions; (iii) joint resource mobilization, including partnerships to support the United Nations system, (iv) common security-related functions, (v) coordination of emergency, humanitarian and relief activities; and (vi) representation of UNDP in the United Nations country team. United Nations coordination activities are normally undertaken by the resident coordinator, while the country director and/or the deputy resident representative usually represents UNDP in the United Nations country team Activities normally undertaken by the chair of operations manager teams and coordination officers should be included here.

(b) *United Nations system programme activities and reporting*. This subgroup includes activities related to providing substantive support to thematic areas and United Nations Development Assistance Frameworks, and monitoring and reporting on progress towards the Millennium Development Goals, which is undertaken by United Nations country teams. The category also covers activities related to United Nations system harmonization and simplification initiatives, public information and advocacy initiatives, and responding to special requests from the Secretary-General and other senior United Nations officials. Staff time spent leading or representing UNDP in inter-agency thematic or operational groups, the formulation of joint projects/programmes, and designing and implementing 'delivering as one' projects should also be included here. These activities are usually carried out on an as-needs or as-requested basis by UNDP programme managers, officers or policy advisors that lead or participate in inter-agency thematic or working groups.

(c) *Operational support and services to the United Nations system*. This subgroup covers activities related to providing administrative support to the United Nations system (including support services for managing common/shared premises, information and communication technologies, finance, human resources, and communications), and supporting or leading inter-agency operational activities. These activities are usually carried out by UNDP management and administrative staff on an as-needed or as-requested basis.

Annex 2

Harmonized definitions and functions



Annex 3

External cost classification benchmarking exercise

61. The consultancy report noted the following with respect to each of the bilateral agencies:

(a) The **United States Agency for International Development (USAID)** has a category called 'programmed development and support', financed from programme funds, which covers the costs of personal services contractors, academic fellows and persons detailed from other United States government agencies engaged in the planning and support of USAID activities both overseas and in Washington. Most foreign national employees (similar to national officers and general service staff in UNDP) are also employed as personal services contractors and are funded from the programme accounts.

(b) The **Swedish International Development Cooperation Agency** maintains a relatively small staff overseas and most programmes are designed, managed and implemented by intermediaries (such as non-governmental organizations, universities and firms), all financed from programme funds.

(c) The **Department for International Development (DFID)** divides its administrative costs into 'pure administration' and 'programme-funded administration'. While both categories are financed from one account, the second category covers staff that support the programme rather than the agency. It includes almost all DFID overseas staff, whether British or local. Programme-funded administration was established to isolate certain types of across-the-board administrative reductions, but also reflects the concept of variable indirect costs.

(d) The *operating* account of the **Canadian International Development Agency** is intended to cover the costs of running the agency, inclusive of direct-hire staff salaries and travel. The *programme* account is used to cover the costs of the rest of overseas operations. These latter costs are reimbursed to the Canadian Department of Foreign Affairs and International Trade. This arrangement represents a tacit acknowledgement that support of the programme is not a purely administrative cost.